

On April 13, 2009, the Bonneville Power Administration ("BPA") issued an FY 2010–11 Average System Cost Draft Report (the "Draft ASC Report") for Puget Sound Energy, Inc. ("PSE") in Docket No. ASC-10-PS-01. PSE provides the following comments in response to the Draft ASC Report. PSE's failure to comment on any item in these comments does not signify PSE's acceptance of, or acquiescence to, BPA's treatment or application of such item in the Draft ASC Report, and PSE reserves the right to challenge any Average System Cost ("ASC") item in any subsequent ASC filing or ASC review process.

**A. Comments Regarding Section 2 – Average System Cost Summary**

BPA provided a copy of the adjusted ASC Appendix 1 which was intended by BPA to reflect the adjustments made by BPA as described in the Draft ASC Report. PSE had some difficulty with the spreadsheet. For example, certain schedules did not reconcile across the functionalized totals to the total input for the schedule or for certain accounts). Specifically, the following schedules in BPA's adjusted Appendix 1 for PSE did not appear properly:

Schedule 1	- Plant Investment/Rate Base
Schedule 1A	- Cash Working Capital Calculation
Schedule 2	- Capital Structure and Rate of Return
Schedule 3	- Expenses
Schedule 3A	- Taxes
Schedule 4	- Average System Cost Ratios

**B. Comments Regarding Section 4 – Review of the ASC Filing**

**1. Introduction to Section 4 – Review of the ASC Filing**

The Draft ASC Report states as follows with respect to the amendment or refinement of determinations made in the ASC Report when addressed in future ASC reviews:

There may have been additional issues that BPA did not identify for comment in this filing. Acceptance of a utility's treatment of an item without comment is not intended to signify a decision of the proper interpretation to be applied either in subsequent filings or universally under the 2008 ASCM. Similarly, given that the current report is one of the first published under the 2008 ASCM, *further experience under the 2008 ASCM may result in amendment or refinement of determinations made herein when addressed in future ASC reviews.*

Draft ASC Report at page 11 (emphasis added).

Comment – BPA should amend this language to clarify that any "amendment or refinement of determinations made in the ASC Report . . . in future ASC reviews" will be prospective in effect for such future ASC review period only and not have any retroactive effect with respect to prior ASC review periods. For example, if BPA were to amend or refine a

determination made in the ASC Report for the FY 2012–13 period, such amendment or refinement should not alter the ASC determination made for either the FY 2009 or FY 2010–11 ASC review periods.

PSE reserves the right/opportunity to develop, compile, acquire new additional and/or supplemental information as/if available regarding the functionalization of assets, liabilities, expenses and revenue subject to Direct Analysis and reserves the right to modify or change the Direct Analysis of an account in future/subsequent ASC submittals, without restriction or limitation. The general framework developed by BPA regarding the functionalization of Account 303 as well as the guidance provided in the Draft ASC Report is helpful and will inform PSE's subsequent submittals as it delineates and expands upon BPA's preferred methods and rationales for such preferred methods.

The discussions and workshop anticipated by BPA regarding the proposed general framework for Account 303 should be an opportunity to more fully explore the documentation requirements for a Direct Analysis and further explore/explain more fully the assets to which BPA has taken exception in the Draft ASC Report. PSE recommends the time allowed for the workshop/discussions be sufficient enough to accommodate discussions regarding any or all determinations made by BPA in the Draft ASC Report.

**2. Section 4.2. – SCHEDULE 1: Plant Investment/Rate Base**

**a. Section 4.2.2. – Account 303, Intangible Plant Miscellaneous:  
Computer Telephony Interface Software/Development**

Section 4.2.2 of the Draft ASC Report functionalizes Computer Telephony Interface Software/Development to Distribution:

*Without additional documentation, BPA is unable to justify PSE's functionalization of Account 303, Intangible Plant Miscellaneous: COMPUTER TELEPHONY INTERFACE SOFTWARE/DEVELOPMENT SOFTWARE to PTD. The Account will therefore be functionalized to the default of Distribution.*

Draft ASC Report at page 17 (italics in original).

The Draft ASC Report provides a good general description of the Computer Telephony Interface Software/Development as follows:

The Computer Telephony Integration (CTI), also known as telephone software, is a product that enables computers to know about and control phone functions such as making and receiving voice, fax, and data calls with telephone directory services and caller identification. The integration of telephone software and computer systems is a major development in the evolution of the automated office.

Draft ASC Report at page 16. This software automates PSE's communications systems and supports PSE's production, transmission and distribution functions equally. The Draft ASC Report states that "the functionalization of a software system should follow the functionalization of the operation it supports". Draft ASC Report at page 17. The Computer Telephony Interface Software/Development does not solely support PSE's distribution function, and the functionalization of such software to distribution is inappropriate. Instead, the Computer Telephony Interface Software/Development supports each of the production, transmission, and distribution functions, and functionalization of such amounts using the PTD ratio is appropriate.

Alternatively, BPA could functionalize Computer Telephony Interface Software/Development using the Labor ratio, consistent with BPA's functionalization of EYRETEL Recording SW - For VOIP Phone System in Table 4.2.1a of the Draft ASC Report. The Computer Telephony Interface Software/Development is very similar to the EYRETEL Recording SW - For VOIP Phone System because each software suite similarly automates PSE's office operations in a manner that supports the PSE's production, transmission and distribution functions equally. Therefore, consistency may require BPA to functionalize Computer Telephony Interface Software/Development with the Labor ratio.

The discussions and workshop anticipated by BPA regarding the proposed general framework for Account 303 should be an opportunity to more fully explore the documentation requirements for a Direct Analysis and further explore/explain more fully the assets to which PBA has taken exception in the Draft ASC Report.

b. **Section 4.2.3. – Account 303, Intangible Plant Miscellaneous: Enterprise Resource Planning, 4.2.4. Account 303, Intangible Plant Miscellaneous: Miscellaneous Software, 4.2.5. Account 303, Intangible Plant Miscellaneous: Meter Data Interface Software and 4.2.6. Account 303, Intangible Plant Miscellaneous: Tax Fixed Asset S/W Customization**

The discussions and workshop anticipated by BPA regarding the proposed general framework for Account 303 should be an opportunity to more fully explore the documentation requirements for a Direct Analysis and further explore/explain more fully the assets to which BPA has taken exception in the Draft ASC Report.

2. **Section 4.6. – SCHEDULE 3A: Taxes**

Section 4.6.1 of the Draft ASC Report functionalizes State and Other Property Taxes with the PTDG ratio:

*State and Other Taxes Property or In-Lieu Taxes will be functionalized with the PTDG ratio.*

Draft ASC Report at page 27 (italics in original). The Draft ASC Report states that the 2008 Average System Cost Methodology requires utilities to functionalize property or in-lieu taxes using the PTDG ratio and does not allow for the direct assignment of costs of property or in-lieu

taxes. The Draft ASC Report apparently relies upon Table 1: Functionalization and Escalation Codes in the 2008 Average System Cost Methodology for this assertion. The requirement in such Table 1 to functionalize property or in-lieu taxes using the PTDG ratio is arbitrary where utilities pay property or in-lieu taxes for a production function in states where such utility does not have a distribution function. In such circumstances, the 2008 Average System Cost Methodology should allow for direct assignment to Production.

PSE functionalized the state of Washington's Property Taxes using the PTDG ratio but directly assigned (i) Montana Property Taxes - Colstrip Generating Station and (ii) Oregon Property Taxes - BPA Transmission Line to Production. The property or in-lieu taxes paid by PSE in Montana and Oregon expenses relate solely to PSE's production function because PSE has no end-use customers in either Montana or Oregon. Therefore, any functionalization of (i) the Montana Property Taxes - Colstrip Generating Station or (ii) the Oregon Property Taxes - BPA Transmission Line to Distribution would be inappropriate. Assuming *arguendo* that the 2008 Average System Cost Methodology would not currently permit direct assignment of costs of property or in-lieu taxes, BPA should revise the 2008 Average System Cost Methodology to permit the direct assignment of costs of property or in-lieu taxes paid in states where the utility does not have a distribution function.

On March 21, 2008 in the context of the Average System Cost Methodology ("ASCM") consultation and on April 18, 2008 in the context of the FY09 Expedited Process, the IOUs submitted comments to BPA which addressed the functionalization of taxes, copies of which are attached to these comments. PSE incorporates these comments into these comments to the Draft ASC Report by this reference.

## **B. Comments Regarding Section 6 – Generic Issue List**

Section 6.1 of the Draft ASC Report raises seven issues that BPA asserts "may be 'generic' to all utilities." Draft ASC Report at page 32. On February 25, 2009 in Docket No. ASC-09-PS-01, PSE submitted supplemental comments to BPA regarding the seven issues, a copy of which is attached to these comments. PSE incorporates these supplemental comments into these comments to the Draft ASC Report by this reference. On February 27, 2009 in Docket No. ASC-10-PS-01, PSE also submitted comments to BPA regarding the generic issues, a copy of which is attached to these comments. PSE also incorporates these comments into these comments to the Draft ASC Report by this reference.

The Draft ASC Report identifies a table of functionalization methods to be used for functionalizing Account 303 software.

BPA decided to develop a general framework for use in software functionalization for Account 303 software. It did so to ensure that software costs will be functionalized in accordance with the 2008 ASCM and that similar types of software would receive the same functionalization for all exchanging utilities to the greatest extent possible. In addition, it should allow utilities that decided not to undertake the task of functionalization of Account 303 – Software an "easy to use" framework for functionalization.

Draft ASC Report at page 36. The Draft ASC Report continues as follows:

BPA will functionalize software systems to follow the operation they support or the labor expense that the software replaced. If a utility fails to provide adequate documentation, BPA will functionalize software systems to Distribution. Below is a list that describes and categorizes the bulk of utility software, includes the accounts associated with utility software and the functionalization BPA will use for each type of software. It is not clear whether BPA is intending that the utility use the general framework as an alternative to the option to functionalize the Account 303 to option to Distribution in the event the utility elects not to do a direct analysis.

Draft ASC Report at page 36.

In general, PSE is concerned as to (i) the manner in which BPA has developed the software functionalization general framework and (ii) the degree to which the framework adequately/accurately reflects PSE software which may appear to have the same/similar name. For example, after reviewing the detailed functionalization spreadsheet for Account 303 software used by BPA, it appears that an attempt was made to associate certain software assets by name with similarly named commercially available software assets. This may have resulted in at least one case of a misidentified asset and, likely, a misapplied functionalization. (See CDARS software in asset listing.) Further, although commercially available software may appear to have common consistent functionality, the implementation of such software at a given utility often involves a great deal of modifications and tailoring to meet the given utility's requirements. These enhancements to commercially available software may necessitate a change in the functionalization used in the ASC. PSE is concerned that the existence of the general framework inappropriately pre-determines a software asset's functionality and, by its existence, raises the burden on the utility to accomplish a change to the functionalization of the tailored/enhanced software different from that shown in the general framework. Because of these types of concerns, PSE requests that the listing of software assets as included in the Draft ASC Report at pages 36-41 be described as preliminary and be the topic for a workshop sometime contemporaneous with the other discussions/workshops anticipated in the Draft ASC Report.

Regarding the general framework presented in 6.1.1 of the Draft ASC Report, it is not clear how this framework will be implemented in the ASC. PSE has the following questions regarding the use of the general framework:

1. Can a utility use the general framework as an alternative to Direct Analysis? For example, it is unclear how the following two sentences at page 31 of the Draft ASC Report relate:
  - In addition, it should allow utilities that decided not to undertake the task of functionalization of Account 303 - Software an "easy to use" framework for functionalization.

- BPA will functionalize software systems to follow the operation they support or the labor expense that the software replaced. If a utility fails to provide adequate documentation, BPA will functionalize software systems to Distribution.
2. If a utility were to use the general framework, would the utility need to provide additional documentation regarding the use of the functionalization method identified in the general framework, particularly if the general framework would functionalize the software systems to something other than Distribution?
  3. Does the 1% threshold apply for any asset in Account 303? If so, is the resulting functionalization Labor? How would the threshold work if a utility has software assets in both common and electric Accounts 303?
  4. Is the following reference to IPC at page 32 of the Draft ASC Report intended to be a reference to PSE?

In addition to the above-noted issues specific to IPC, BPA raised seven issues that may be "generic" to all utilities.

5. The following sentence at page 34 of the Draft ASC Report is unclear:

Repeating this disparate method of recording software in a utility database for a 1,000 or more unique software products that a typical utility may have and the task of functionalizing the software for an ASC filing is difficult and time consuming for a utility analyst that may not have familiarity with the software and how and where it is used within the utility.

The workshops/discussion identified by BPA to address the general framework should be used as an opportunity to clarify the above sentence.

6. Is the following interrogatory sentence on page 43 of the Draft ASC Report intended to be a declaratory sentence:

If the regulatory asset or liability is included in the utility's jurisdictional rate base, then and only then will the utilities be permitted to functionalize the regulatory asset or liability based on the functional nature of the item?

7. Would the determination in 6.1.4, require the balance sheet accounts to be functionalized in the same manner as the related income statement accounts?
8. Should the phrase in 6.3.6 that reads "The parties also supported the principle that the natural gas price forecast..." be revised to read "The parties also supported the principle that the *total* natural gas price forecast..." so as to not to be confused with the natural gas price forecast for commodity only.

9. Is section 6.2 intended to be the same as section 2.2? If section 6.2 is not deleted, then the reference to the “tables below” should be revised accordingly.

**C. Conclusion**

PSE appreciates the opportunity to submit these comments to the Draft ASC Report and urges the Administrator to adopt the arguments and accept the proposals contained in these comments and to incorporate them into the Final ASC Report for FY 2010–11.